

MESSAGE FROM THE ADMINISTRATOR



THE SBA'S MISSION

The mission of the SBA is to maintain and strengthen the Nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters.

November 15, 2006

I am pleased to present the U.S. Small Business Administration's (SBA) FY 2006 Performance and Accountability Report. This report describes the Agency's achievements and challenges as it seeks to expand the opportunities for success of our Nation's small businesses and assist in the economic recovery of communities after disasters. This report also highlights our efforts to manage taxpayer dollars responsibly and ensure that the Agency is making capital, management and procurement assistance available to those who need it most.

While FY 2006 was another record-setting year for the SBA, it was also a year of organizational challenge and improvement. The devastation wreaked by the Gulf Coast hurricanes in the fall of 2005 resulted in the Agency approving over \$11 billion in disaster loans during FY 2006 – nearly triple the Agency's previous annual record. To respond, the Agency hired 3,000 additional staff, rented more space, and expanded the capacity of its new automated disaster management system in a matter of months. Still, we were not able to meet acceptable performance standards. There were many lessons learned from this difficult experience. We have greatly expanded our planning capability, and redesigned many of our processes to enable faster production and to ensure fewer errors and a more customer-friendly experience. As a result, I believe the SBA now has a much improved capacity to serve Americans in future catastrophic disasters.

The SBA also achieved lending records in its Section 7(a) and 504 guaranteed business loan programs. Over 100,000 loans were guaranteed, reflecting an increase of 55% over FY 2003. Furthermore, in conjunction with the SBA's resource partners, the Agency reported that over 1.2 million small businesses and potential entrepreneurs received counseling and training.

Improvement in the operations of the Agency was also a priority in FY 2006, and the SBA made concrete progress in many areas, as evidenced by a "green" for progress rating in seven of the eight President's Management Agenda elements applicable to the SBA. This reflects important improvement that we will be able to build on as the Agency moves forward to address its remaining challenges.

Our approach for tackling SBA's challenges and capturing opportunities is guided by four principles:

- **Outcomes Driven:** We need to clearly define the outcomes we are targeting and ensure our programs, processes and policies are aligned in achieving them.
- **Customer Focused:** We serve people and must be responsive to their needs, both in the services we provide and in how we deliver them.
- **Employee Enabled:** Our people extend the hand of service to Americans every day, and we must ensure they have the tools, the training, and the support to be effective.
- **Accountable, Efficient and Transparent:** We have a bedrock obligation to the taxpayer to manage efficiently, invest capital prudently, and be open and honest about our results.

These guideposts direct our efforts to a number of areas in the coming year. We will enhance our focus to help drive business development in underserved communities in our country, where small businesses can bring much needed employment, economic activity, and ownership. We will continue to make progress in improving our ability to respond to major disasters, and we will evaluate a number of our processes to simplify them for the customer and make them more efficient for the taxpayer. Our Inspector General and others have noted that large businesses have been coded as small businesses in the federal contracting process. We have taken measures to address this issue, and it will be a top priority this year along with other initiatives to improve the ability of small businesses to obtain government contracts. Another critical challenge facing the SBA is in improving the morale and effectiveness of our people. Our employees have made it clear that because of centralization and the resulting downsizing and reassignments in recent years, they need more training. Our employees have begun to get that training and will continue to receive it this year.

The SBA made additional progress in improving its financial management and reporting operations this year. For the second year in a row, we earned an unqualified opinion from our independent auditor. The SBA has a strong commitment to financial management and proper stewardship of taxpayer dollars. While the Agency took action to address almost all of the FY 2005 audit findings, the independent auditor identified a repeat material internal control weakness in financial reporting. The finding primarily reflected that the SBA had to restate a footnote to the prior year financials on the size of the SBA's guaranty portfolio. As SBA financial analysts identified and corrected this prior year error using improved internal control procedures, the restatement demonstrates an improvement in our processes. Nevertheless, we are determined to address all of this year's audit recommendations and eliminate this remaining material weakness by next year.

To ensure we have a strong foundation for the performance and accountability process, SBA managers have reviewed the data used in this report. Except where we point out and discuss specific limitations, I hereby provide reasonable assurance that the data we provide are valid, reliable, and an accurate measure of where we have made genuine progress and where we still have room for improvement.

This report also addresses the Federal Managers Financial Integrity Act (FMFIA) reporting requirements. FMFIA requires that Federal programs be operated efficiently, effectively, and in compliance with relevant laws. I am providing a qualified assurance that our systems of internal control comply with FMFIA's objectives. Areas that need improvement are identified in this document.

I was appointed to be the SBA Administrator in July, 2006. Since then I have had the opportunity to meet hundreds of small business owners, SBA employees, and SBA resource partners including lenders, counselors and investors. I have been deeply impressed with the commitment and sense of mission among both our people and our partners. In addition, it has confirmed my belief that the spirit of the entrepreneur is the essence of our Nation's economic greatness, and their accomplishments are its reflection. I am honored to serve America's small businesses and my partners at the SBA, and I look forward to reporting our progress to you next year. I invite you to visit the SBA online at www.sba.gov for more information about the Agency and its programs.

Sincerely,



Steven C. Preston
Administrator